

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND COUNCIL ON MUSINA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Musina Municipality set out on pages X to XX, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2011 (Act No.6 of 2011) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence to confirm the existence and completeness of property, plant and equipment, stated at R295 937 474 in the financial statements.. The municipality's underlying accounting records did not facilitate performance of alternative procedures to confirm the existence and completeness of these assets. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment in the financial statements was necessary.

Irregular Expenditure

7. Section 65(2)(i) of the MFMA requires the municipality to implement a supply chain management policy in a way that is fair, equitable, transparent, competitive and cost effective. The municipality procured goods and services amounting to R1 230 825 in contravention of the supply chain management requirements. The amount was not included in the irregular expenditure, disclosed in the note 45.1 to the financial statements. There were no satisfactory alternative audit procedures that I could perform to obtain a reasonable assurance that all irregular expenditure was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure of R61 867 060 disclosed in note 45.1 to the financial statements.

Distribution losses

8. Section 125(2)(d)(i) of the MFMA requires that the notes to the annual financial statements of a municipality must disclose the particulars of any material losses. The municipality did not conduct an evaluation of material losses relating to electricity for the year under review and no disclosure was made in the financial statements in accordance with the requirements of the MFMA.

Opinion

9. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Musina Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of MFMA and the DoRA.

Emphasis of matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unauthorised expenditure

11. As disclosed in note 45.3 to the financial statements, the municipality incurred unauthorised expenditure of R3 052 961 due to overspending of the total amount appropriated in the municipality's approved budget.

Additional matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the performance report as set out on pages XX to XX of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance

report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPi)*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. The material findings are as follows:

Usefulness of information

Consistency

Planned development priorities, indicators and targets not reported in annual performance report

18. The MSA, section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of all planned development priorities, indicators and targets specified in the integrated development plan for the year under review. This was due to a lack of a performance management system.

Measurability

Performance targets not specific

19. The National Treasury *FMPPi* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets relevant governance and administration and infrastructure were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management appointed a consultant that failed to deliver the performance management system.

Performance targets not measurable

20. The National Treasury *FMPPi* requires that performance targets be measurable. The requested performance could not be measured for a total of 100% of the targets relevant to governance and administration and infrastructure. This was due to the fact that management appointed a consultant that failed to deliver the performance management system.

Performance targets not time bound

21. The National Treasury *FMPPi* requires that the time period or deadline for delivery be specified. A total of 100% of the targets relevant to governance and administration and infrastructure were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management appointed a consultant that failed to deliver the performance management system.

Performance indicators not well defined

22. The National Treasury *FMPPi* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators relevant to governance and administration and infrastructure were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles.

Performance indicators not verifiable

23. The National Treasury *FMPP* requires that indicators it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators relevant to governance and administration and infrastructure were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the *FMPP* but did not receive the necessary training to enable application of the principles.

Reliability of information

Validity, accuracy and completeness

Development priorities, indicators and targets not included in annual performance report

24. I was unable to report on the reliability of the annual performance report of Musina Municipality as it only contained in instances, an overall indication of performance while it did not contain development priorities, indicators and targets. Consequently, I was unable to satisfy myself as to the validity, accuracy and completeness of the actual performance reported in the annual performance report. This was due to the fact that the municipality did not report on the planned development priorities, indicators and targets as per the IDP, as well as a lack of in-year performance management assessment, internal monitoring and review of progress against planned targets, development priorities and indicators.

Compliance with laws and regulations

25. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

26. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.

Budgets

27. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
28. The accounting officer did not assess the first half of the financial year performance of the municipality, as required by section 72(1) and 72(1)(a)(ii) of the MFMA.

Annual financial statements, performance and annual reports

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.
30. The annual performance report for the year under review does not include the performance of the municipality and name of external service providers, a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(a), (b) and c) of the MSA.
31. The 2010-11 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2010-11 annual report in the council, as required by section 127(3) of the MFMA.

Audit committee

35. The audit committee did not advise the council, political office bearers, accounting officer and management on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
36. The audit committee did not advise the council, political office bearers, accounting officer and management on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
37. The audit committee did not advise the council, political office bearers, accounting officer and management on matters relating to compliance with the MFMA and DoRA, as required by section 166(2)(a)(vii) of the MFMA.
38. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
39. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Internal audit

40. The internal audit unit did not function throughout the year, as required by section 165(2)(a) and (b) of the MFMA, in that:
 - it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
 - it did not report to the audit committee on the implementation of the internal audit plan.
 - it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
41. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA and the DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.
42. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14(1)(a).

Procurement and contract management

43. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
44. A contract was extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
45. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.

46. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Expenditure management

47. The accounting officer did not take effective steps to prevent irregular and unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
48. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

Internal control

49. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- The municipality did not have monitoring controls to ensure the establishing and implementation of the overall performance management system process. The annual performance report did not contain the development priorities, indicators and targets.
- The accounting officer and the council did not exercise oversight responsibilities in relation to promoting the audit committee as an independent advisory body for strengthening internal controls.
- The municipality did not have sufficient capacity to report adequately on its performance and properly plan and provide training on performance information planning, management and reporting.
- The municipality developed an action plan to address external audit findings but the performance and compliance findings were not adequately resolved.

Financial and performance management

- The financial statements contained misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework.
- The annual performance report did not contain development priorities, indicators and targets. This was due to the fact that the municipality did not report on the planned development priorities, indicators and targets as per the IDP, as well as a lack of in-year performance management assessment, internal monitoring and review of progress against planned targets, development priorities and indicators.
- Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

Governance

- The risk assessment did not take into consideration the lack of in-year performance management assessment, internal monitoring and review of progress against planned targets, development priorities and indicators.
- The internal audit was not yet functional throughout the year.

- The municipal council, the accounting officer and audit committee do not exercise oversight responsibility in finding a solution that would allow the audit committee to advise the council on matters contained in the MFMA.

OTHER REPORTS

Investigations

50. An investigation was conducted by an independent firm on request of the provincial Department of Co-operative Governance, Human Settlements and Traditional Affairs. The investigation was based on the allegation of financial irregularities at the municipality. The municipality is assessing the steps that need to be taken.

Auditor - General.

Polokwane

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence